



Union Budget 2019: Impact on MSME Sector

Major focus on Interest Subvention, Accelerated
Payment of Receivables & Lower Taxation

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UNION BUDGET 2019: AN OVERVIEW

Particulars	(In ₹ crores)				
	FY18 (A)	FY19 (RE)	FY20 (BE)	% in FY19	% in FY20
Revenue	14,35,233	17,29,682	19,62,761	20.52	13.48
Tax revenue	12,42,488	14,84,406	16,49,582	19.47	11.13
Non-tax	1,92,745	2,45,276	3,13,179	27.25	27.68
Total Receipts	21,41,975	24,57,235	27,86,349	14.72	13.39
Total Expenditure	21,41,975	24,57,235	27,86,349	14.72	13.39
Fiscal Deficit (FD)	5,91,064	6,34,398	7,03,760	7.33	10.93
FD/GDP (Ratio)	3.5	3.4	3.3		

IMPACT OF UNION BUDGET ON MSME SECTOR

There are 63.38 million unincorporated non-farm MSMEs in the country engaged in different economic activities, including 19.66 million in manufacturing and 23 million in trade activities, according to data from the MSME ministry. The sector employs more than 49.77 million people.

The Economic Survey 2018-19 recommended incentivizing and handholding micro, small and medium enterprises (MSMEs) that are less than ten years of age, rather than providing benefits across the board. The rationale for the change in strategy stems from the “perverse incentives for firms to remain significantly smaller in the Indian economic landscape,” that has resulted in Indian firms not growing enough to create jobs and desired productivity in the economy.

SMERA believes that The Budget 2019-20 has provided a range of fiscal provisions and incentives which would accelerate the credit flow as well as address the issues related to the MSMEs. Besides, certain social welfare measures for the small entrepreneurs / business men have been included in the budget.

KEY HIGHLIGHTS

Allocation of Rs. 350 crores towards 2% interest subvention on fresh or additional incremental loans for all MSMEs registered under GST. This measure by itself in the opinion of SMERA is likely to facilitate additional loans of Rs. 17,500 crores approximately. This loan amount, on a rough reckoning, would translate to incremental investment of about Rs. 25,000 crores by the enterprises in the MSME sector.

Accelerated Payment of Receivables

- **Payment platform against receivables:** With a view to eliminate / minimize the delays in payment by the Government to suppliers and contractors, especially to MSMEs, a payment platform is proposed to be created. This payment platform will enable filing of bills and payment thereof on the platform itself.



- **Trade Receivable Discounting System:** The (TReDS) Platform, which is operating for about 2 years (it went live on April 07, 2017), has financed about Rs. 3,000 Crores of receivables of the MSME Sector. The Budget proposes to bring more participants, especially NBFCs, not registered as NBFC. Factor on the TReDS platform, through certain amendments in the Factoring Regulation Act, to allow all NBFCs to directly participate in the TReDS platform.

These twin measures, SMERA believes will benefit the MSMEs in getting timely payment against their receivables and improve their growth and liquidity

Pension Scheme: The Government of India has decided to extend the pension benefit to about three crore retail traders and small shopkeepers whose annual turnover is less than Rs. 1.5 crores under a new scheme. This social welfare scheme is proposed to benefit 3 crores MSME entrepreneurs

Reduction in Corporate Tax: Extension of the corporate tax rate of 25% to companies having an annual turnover upto Rs. 400 crores from the earlier limit of upto Rs. 250 crores, will cover 99.3% of the companies. The MSME, particularly the medium scale sector will benefit by this measure, leading to higher net profits, cash accruals and resultant improvement in liquidity.

Technology Upgradation and Regeneration of Traditional Industries: With a focus on productivity, profitability and sustained employment generation, of the traditional industries, the scheme of Fund for Upgradation and Regeneration of Traditional Industries, envisages to set up 100 new clusters during 2019-20. The focus will be on Bamboo, honey and Khadi cluster.

SMERA believes that the micro and village industries in these sectors would benefit immensely from this move including extension of marketing support.

Others: In addition to these specific measures for the benefits of MSMEs, the proposal for Rs. 100 lakh crore investments in the infrastructure sectors, capitalization of banks of Rs. 70,000 crores, better funding access to NBFCs and encouragement to domestics MSMEs through various fiscal measures are expected to parallelly facilitate greater flow of credit to the MSMEs and foster their profitability and growth.

The Make in India government scheme covers 25 sectors of the economy and encourages companies to manufacture their products in India. This scheme specially emphasizes on MSMEs and is one of the major focus areas of the Union Budget this year. A start-up channel is also proposed on Doordarshan which will help budding entrepreneurs to shape their ideas and guide them about complex issues of compliance and taxation.

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Expenditure of Major Items (Y-on-Y % Change)

Particulars	FY 18 (A) (In ₹ crores)	FY 19 (RE) (In ₹ crores)	FY 20 (BE) (In ₹ crores)	% in FY 19 (RE)	% in FY 20 (BE)
Defense	276572	285423	305296	3.20	6.96
Subsidy:					
• Fertilizer	66468	70086	79996	5.44	14.14
• Food	100282	171298	184220	70.82	7.54
• Petroleum	24460	24833	37478	1.52	50.92
Agriculture and Allied Activities	52628	86602	151518	64.55	74.96
Education	80215	83626	94854	4.25	13.43
Energy	42155	46150	44638	9.48	-3.28
Health	52994	55949	64999	5.58	16.18
IT and Telecom	16899	16282	21783	-3.65	33.79
Tax Administration of which	71756	67448	117285	-6.00	73.89
Transfer to GST Compensation Fund	56146	51735	101200	-7.86	95.61
Transport	110399	145399	157437	31.70	8.28

Expenditure of Major Items (% of Total Budgeted Expenditure)

Particulars	FY 18 (A) (In ₹ crores)	FY 19 (RE) (In ₹ crores)	FY 20 (BE) (In ₹ crores)	FY 18 (A) %	FY 19 (RE) %	FY 20 (BE) %
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Education	80215	83626	94854	3.74	3.40	3.40
Energy	42155	46150	44638	1.97	1.88	1.60
Health	52994	55949	64999	2.47	2.28	2.33
IT and Telecom	16899	16282	21783	0.79	0.66	0.78
Rural Development	134973	135109	140762	6.30	5.50	5.05
Tax Administration of which	71756	67448	117285	3.35	2.74	4.21
Transfer to GST Compensation Fund	56146	51735	101200	2.62	2.11	3.63
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SMERA was incorporated in 2005 as an initiative of Ministry of Finance, Govt. of India and the Reserve Bank of India to help Indian MSMEs grow and get access to credit through independent and unbiased credit opinion that banks can rely on. Thus SMERA became the world's first MSME focused rating agency and introduced the concept of SME Ratings in India. SMERA is now a division of Acuité Ratings & Research Limited (a SEBI Registered and RBI Accredited Credit Rating Agency).

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